ESB International Ltd
Stephen Court, 18/21 St Stephen's Green, Dublin 2, Ireland
Telephone +353-1-703 8000 **Fax** +353-1-703-7097
www.esbi.ie

26th June 2008
John Lynch,
Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Dublin 24

Ref: SEM/08/067 Transmission Use of System Charging: Methodology for All-Island Generation Tariffs.

Dear John,

I attach ESB International (ESBI) response to the above consultation.

Kind regards

Claire Kierans
Market Strategy Manager,
Independent Generation,
ESB International

ESBI RESPONSE

SEM/08/067 Transmission Use of System Charging: Methodology for All-Island Generation Tariffs.

A CONSULTATION PAPER

Introduction

This response is submitted by ESB International on behalf of Coolkeeragh ESB Ltd. ESBI appreciates the opportunity to comment on these important regulatory parameters and we have no objection to all or part of it being published by the Regulatory Authorities (RAs).

This response comments on selected sections of the Regulatory Authorities (RAs) paper. ESBI supports the approach set out in the Terms of Reference.

ESBI supports the decision to harmonise the TUoS approach in the two jurisdictions. We accept the methodology outlined in the document.

However the proposed all-island locational generator TUoS tariffs for 2008/09 has substantially changed the cost base for Coolkeeragh i.e. doubling what is already a very significant cost. These costs will not be recoverable. Bidding Principles could be changed to allow generators to recover some of the additional costs through their market bids. However, NI generators cost element of TUos would be greater than those in ROI. Therefore NI plants will be further pushed down the merit order, they would be despatched less and therefore their ability to recover the costs would be reduced.

This would indicate a delay in implementing the increased TUoS proposals is reasonable to allow these costs to be properly reflected in the capacity (BNE) calculation. This could also indicate that a separate capacity calculation may be required for NI Generators.

V2.1 Normalisation by shifting or multiplication

"It was suggested that a possible alternative to shifting the 'raw' tariffs by a uniform €/kW amount would be to multiply the raw tariffs by a factor chosen to achieve the required revenue recovery. Given that it is proposed to take the maximum value across a number of scenarios, the resulting raw tariffs tends to give a high revenue recovery and hence the factor is substantially less than one.

This approach deviates from the approach previously adopted by EirGrid. .....Furthermore, the RAs consider that, with the multiplier approach, a number of factors would affect the locational differentials that it is not sensible should do so….

Accordingly, the RAs are not minded to revise this aspect of the methodology"

The significant changes in wires costs have resulted in dramatic changes to the generation tariffs. These changes have particularly disadvantaged generators located in NI. Calculation of the tariff by taking the maximum value across a number of scenarios, coupled with normalisation by using a "shift" factor accentuates the range of tariffs and results in a disproportionate amount of the wires costs being recovered from generators with high positive tariffs. While the RA's are insisting on maintaining EirGrid's existing normalisation process of shifting the "raw" tariffs by a uniform amount rather than apply a multiplication factor, no cogent argument is advanced for this approach.

We would request that the RA's give due consideration to changing the normalisation process.

V.4 Volatility Mitigation

This sections comments that "new entrants should be taking decisions, not on the tariff at the time of connection, but expectations of the Net Present Value of tariffs over the lifetime of the generation project" We would respectfully ask the RAs how new entrants would calculate this NPV and what basis they could have for developing expectations, as this is not discussed in the document .

Locational Pricing Signals

Locational pricing signals from TUoS tariffs are more likely to increase market costs Generators have built their business models on the basis of the pricing in place at a specific moment in time. To introduce such a significant change in pricing methodology now will not only impact on the bottom line of existing generators, but will also raise concerns about pricing stability going forward for prospective investors. We believe that this will lead to increased costs of capital for generation projects through increased risk which either stifles investment in new builds or increases market costs or, does both.

We submit that the current proposals for the harmonisation of the TUoS tariffs in the SEM is biased towards ROI Generators and detrimental to NI generators. Accordingly ESBI would like to jointly meet with the RA's, SONI and the other Northern Ireland Generators to discuss these proposals in detail and to examine possible mitigation measures or alternative proposals. In the interim we would request the introduction of any new TUoS tariff methodology be deferred until a reasonable way forward can be agreed between the parties